

## INVESTOR REPORT FOR GREATER GABBARD OFTO Plc

As at SEPTEMBER 2017

### General Overview

#### *Present Status:*

Investors: Equitix Capital Investors UK Cable Limited and Equitix Transmission 2 Limited

O&M Contractor: Balfour Beatty Utility Solutions Limited (“BBUS”)

O&M Guarantor: Balfour Beatty Group Limited

Security Trustee: Deutsche Trustee Company Limited

Principal Paying Agent: Deutsche Bank London Branch

Technical Adviser: Mott MacDonald Limited

Insurance Adviser: Willis Limited

Ratings by Moodys Investors Services Limited: A3

Outstanding Principal Amount: £277,195k as at 29 September 2017 (after a principal repayment of £4,618k on 29 September 2017). The undrawn PBCE amount as at 31 March 2017 after the senior debt principal payment is £41,882kk.

### General Performance

The OFTO has achieved excellent availability over the period at 100% against an expected 99%. There is a planned outage of 4-5 days for the replacement of the Cable Sealing Ends (discussed in detail later).

Monitored Operating Costs remain between the 80% and 120% band as required by the project agreements.

Export Cable 1 & 3 spare fibre results show no signs of further deterioration. There are some small increases in dB losses but these results are likely to be due to ambient temperature conditions. Earlier Export Cable 2 tests confirm that all fibres now have open circuits at approximately 1.3km and are therefore broken.

Work continues on the planning for the repair of export cable 2. Grout samples have been taken from the onshore cable ducts, VBMS Ltd, an experienced repair specialist, have been instructed to prepare the final plan for October, and maintain resources to react at short notice for either a pre-emptive or reactive repair operation.

The neighbouring newly built windfarm, Galloper, whilst in the process of installing their final export cable, on the 10th May 2017 had disconnected one of the beach anchors and deployed another. The discarded anchor could not at first be found. Subsequent side-scan sonar survey determined that the anchor had been dragged over EC1 but apparently not touched it. BBUS carried out OTDR fibre tests on all circuits to confirm nothing had changed. The Anchor recovery operation commenced on the 6<sup>th</sup> July 2017. Planning had been completed to initiate an Exceptional Event claim with OFGEM for the proposed 3-4 day outage. In the event, as the cable was lightly buried in the area of the anchor, the safety issues were greatly reduced and the outage not required. The anchor was recovered successfully without any damage to the cable.

As part of an initiative to improve the O&M contractor's performance, the OFTO issued BBUS with a number of Warning Notices in June. These are the agreed mechanisms in the O&M contract to request compliance. They have been replied to with either evidence of compliance or plans to improve to achieve compliance. An improvement programme is underway within BBUS. In accordance with the contractual mechanisms, Final Notices have been issued in September only where compliance progress is notably slow. The OFTO does have a contingency plan in place for transition to an alternative O&M provider in the unlikely event that the issues remain unresolved. It is not currently anticipated that this contingency will be necessary.

BBUS have carried out two successful maintenance campaigns offshore in this period with a number of tasks completed:

- The Heli Cranes have been returned to service.
- The Palfinger cranes inspected and due to return to service in early October.
- The Life rafts have been repaired/serviced and recertified for use.
- Several mandatory sub-sea and shore based surveys have been carried out.

However, there are two identified faults requiring further work that could lead to loss of revenue:

- Cable Sealing Ends. The oil in the CSE reservoir has continued to rise leading to a recommendation from BBUS to replace the 'O' ring seals and possibly the CSE assembly altogether. Discussions remain ongoing to determine the optimal solution but whatever method is chosen will result in a 4-5 day outage, possibly more.
- The SVC module 1 (on export cable 1) tripped on the 8<sup>th</sup> July and as of 28<sup>th</sup> September remains out of service. This does not directly affect OFTO availability, only the services to be provided to National Grid in accordance with the OFTO licence. After escalation to BBUS senior management and the manufacturer Siemens' highest level of technical support, the investigation now centres on a the IGBT module V20CA subcomponent. The module is due to be swapped and returned to Siemens for root cause investigation. National Grid are currently relaxed about the reported reduction in capability but the SVC must be repaired as soon as possible.

Post-close Developer works are complete except for the:

- GASUB Helideck was to be re-classified as a Heli-hoist Only Platform. This is yet to happen as it has become apparent after a condition survey was carried out that several installed systems (Heli decks, cranes and life support systems) are surplus to requirements as the platforms are not manned. These will be dealt with later as part of a project to be defined.

1. There have been no new significant regulatory and business and performance developments since the previous Investor Report in March 2017.
2. There have been no significant announcements/publications by the Authority by or relating to the Security Group since the previous Investor Report in March 2017.

### **Current Hedging Position**

3. A hedging agreement is in place to swap c64% of revenue over the life of the senior debt term on a pari passu basis to mitigate risks associated with lower than expected RPI.

### **Current availability / drawn amounts under the PBCE**

4. The European Investment Bank (the PBCE Provider) has provided a letter of credit for an amount of £41,882k (the PBCE Letter of Credit) as at 29 September 2017 as a form of subordinated credit enhancement for the Issuer in relation to the bonds and the hedging arrangements. No amounts have been drawn from the letter of credit as at 29 September 2017.

## Ratios

5. We confirm that the ratios (together the **Ratios**) are as detailed in the tables below:

<b>Ratio</b>	<b>Ratio for Relevant Period/Date (excluding undrawn PBCE)</b>	<b>Lock-Up Ratio Level (excluding undrawn PBCE)</b>	<b>Ratio for Relevant Period/Date (including undrawn PBCE)</b>	<b>Default Ratio Level (includes undrawn PBCE)</b>
Projected DSCR:	1.20x	1.10x	3.18x	1.05x
Historic DSCR:	1.17x	1.10x	3.25x	1.05x
Debt Life Cover Ratio:	1.37x	1.15x	1.52x	1.05x

6. We confirm that the Ratios have been calculated using the most recently available financial information required to be provided by the Obligors under Schedule 2 (Obligor Covenants) of the Common Terms Agreement.

7. We set out below the computation of the Ratios for your information:

The numerator excludes the PBCE letter of credit facility

Senior Debt excludes mark-to-market liabilities under hedging agreements

- (a) Projected DSCR - 1.20

Net Cashflow (Oct 17- Sep 18) 24,944

Debt Service (Oct 17- Sep 18) 20,783

Net Cashflow is comprised of Gross Revenue less Operating Costs, Capital Costs and Taxes

Gross Revenue is net of RPI swap payments and movements in and out of the Emergency Reserve Account (ERA), Decommissioning Reserve Account (DRA) and Working Capital Reserve Account (WCRA)

Debt Service includes all scheduled payments of interest and principal payable in respect of senior debt and any termination payments then due and payable under any hedging agreement.

(b) Historic DSCR – 1.17

Net Cash flow (Oct 16 – Sep 17) 23,913

Debt Service (Oct 16 – Sep 17) 20,411

(c) Debt Life Cover Ratio (DLCR) – 1.37

NPV of Net Cash flow plus DSRA, ERA, WCRA 375,037  
plus residual balance of operating account

Senior Debt 274,195

We confirm that:

(d) No Default has occurred

(e) the statements set out in this Investor Report are accurate in all material respects;

(f) No Restricted Payment has been made since the previous Investor Report in March 2017.

Yours faithfully,



Director

Signing without personal liability, for and on behalf of **Greater Gabbard OFTO Plc** for and on behalf of each Obligor

Date 29 September 2017